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Arizona Corporation Commission

DOCKETED

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DOCKET NO. T-01051B-03-0454

IN THE MATTER OF QWEST  
CORPORATION'S FILING AMENDED  
RENEWED PRICE REGULATION PLAN**MOTION TO REVISE  
PRODUCTIVITY FACTOR AND  
NOTICE OF FILING UPDATED  
PRODUCTIVITY ANALYSIS AND  
AFFIDAVIT OF PHILIP E. GRATE**

Pursuant to Decision No. 63487 and Qwest's Price Cap Plan, Qwest Corporation ("Qwest") hereby requests that the productivity factor used in the calculation of the Basket One Price Cap Index under the Price Cap Plan be amended to reflect the information contained in the attached Original Affidavit of Philip E. Grate, designated as Exhibit 1, in the above referenced matter. Supporting Schedules are designated as attachments A through C to Exhibit 1. Attachment A illustrates the 1995 to 1998 productivity analysis that was used to arrive at the productivity adjustment factor for the current Price Cap Plan. Attachment B shows the same calculation performed with the most recent financial information available, covering the years 1999 to 2002. Attachment C contains historic data from 1988 to 1998.

Significant changes have occurred in the telecommunications industry and in Qwest's operations since the productivity factor was set in 2001. That factor was based on productivity achievements from 1995 through 1998. Thus, the productivity factor

1 proposed to be used to adjust rates in April 2004 is based on data over six years old.  
2 Exhibit 1 shows that a revised productivity factor for 2004, calculated in the same  
3 manner as the current productivity factor, would be -1.2% without any negotiated  
4 consumer dividend. This data demonstrates that the presumptive productivity adjustment  
5 factor established for the initial term of the Price Cap Plan is far out of line with the  
6 economic reality three years later. The current productivity calculations attached to  
7 Grate's Affidavit were provided to the Staff in July of 2003 and no one has challenged  
8 those calculations. Without waiving its right to appeal the terms of Decision No. 66772  
9 or any subsequent order clarifying the interim status of the Price Cap Plan, Qwest  
10 requests that the productivity factor be updated as calculated in Grate Affidavit  
11 Attachment B. The productivity adjustment factor should be reduced to zero.

12 RESPECTFULLY SUBMITTED this 5<sup>th</sup> day of March, 2004.

13 FENNEMORE CRAIG, P.C.

14  
15 By: 

16 Timothy Berg  
17 Theresa Dwyer  
18 3003 North Central Ave., Suite 2600  
19 Phoenix, Arizona 85012-2913  
(602) 916-5421  
(602) 916-5999 (fax)

20 -and-

21 Norman Curtright  
22 QWEST LAW DEPARTMENT  
23 4041 North Central Avenue, 11<sup>th</sup> Floor  
24 Phoenix, Arizona 85012  
25 (602) 630-2187  
26 *Attorneys for Qwest Corporation*

1 ORIGINAL and 13 copies hand-delivered for  
2 filing this 5<sup>th</sup> day of March, 2004 to:

3 Docket Control  
4 ARIZONA CORPORATION COMMISSION  
5 1200 W. Washington St.  
6 Phoenix, AZ 85007

7 COPY of the foregoing delivered  
8 this 5<sup>th</sup> day of March, 2004 to:

9 Jane Rodda  
10 Administrative Law Judge  
11 ARIZONA CORPORATION COMMISSION  
12 1200 W. Washington St.  
13 Phoenix, AZ 85007

14 Maureen A. Scott  
15 Legal Division  
16 ARIZONA CORPORATION COMMISSION  
17 1200 W. Washington St.  
18 Phoenix, AZ 85007

19 Ernest G. Johnson, Director  
20 Utilities Division  
21 ARIZONA CORPORATION COMMISSION  
22 1200 W. Washington St.  
23 Phoenix, AZ 85007

24 COPY of the foregoing mailed  
25 this 5<sup>th</sup> day of March, 2004 to:

26 Scott S. Wakefield, Chief Counsel  
Daniel W. Pozefsky, Esq.  
RUCO  
1110 West Washington, Suite 220  
Phoenix, AZ 85007

- 1 Michael W. Patten
- 2 Roshka Heyman & DeWulf, PLC
- 3 One Arizona Center
- 4 400 East Van Buren Street, Suite 800
- 5 Phoenix, Arizona 85004
- 6
- 7 Mark A. DiNunzio
- 8 Cox Arizona Telcom, LLC
- 9 20401 North 29<sup>th</sup> Avenue
- 10 Phoenix, Arizona 85027
- 11
- 12 Thomas H. Campbell
- 13 Michael T. Hallam
- 14 Lewis and Roca
- 15 40 N. Central Avenue
- 16 Phoenix, Arizona 85004
- 17
- 18 Thomas F. Dixon
- 19 WorldCom, Inc.
- 20 707 17<sup>th</sup> Street, 39<sup>th</sup> Floor
- 21 Denver, Colorado 80202
- 22
- 23 Richard S. Wolters
- 24 AT&T
- 25 1875 Lawrence Street, Room 1575
- 26 Denver, CO 80202-1847
- 27
- 28 Peter Q. Nyce, Jr.
- 29 Regulatory Law Office
- 30 U.S. Army Litigation Center
- 31 901 N. Stuart Street, Suite 713
- 32 Arlington, VA 22203-1837
- 33
- 34 Richard Lee
- 35 Snavely King Majoros O'Connor & Lee
- 36 1220 L. Street N.W., Suite 410
- 37 Washington, DC 20005
- 38
- 39
- 40
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1 Patrick A. Clisham  
2 AT&T Arizona State Director  
3 320 E. Broadmoor Court  
4 Phoenix, AZ 85022

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# **EXHIBIT**

**1**



a 4.2 percent productivity factor based on Qwest's historic Arizona productivity during a four-year period from 1995 to 1998.<sup>2</sup> The 4.2 percent annual productivity factor was incorporated into the Settlement Agreement as a compromise to the respective positions of the parties, and included 0.5 percent consumer dividend.<sup>3</sup> The calculation of the 4.2 percent annual productivity factor based on Qwest's 1995 to 1998 MR intrastate data, plus a 0.5 percent consumer dividend, can be found in Attachment A to this affidavit.

5. A calculation of Qwest's annual productivity from 1999 through 2002 can be found in Attachment B. The calculation yields an average annual productivity factor, excluding any consumer dividend, of negative 1.2 percent. The algorithms and data sources used in Attachment B are the same as in Attachment A except that the data used in Attachment A is for the four-year period 1995 through 1998 while the data used in Attachment B is for the four-year period 1999 through 2002. Arizona MR intrastate data for 2003 is not yet available.

6. The annual financial data used in Attachment B reflect the effect of the restatement of Qwest's financial statements for the years 2000, 2001 and 2002. The data and algorithms in Attachment B are the same as the data and algorithms in the revised Exhibit B (filed with the ACC January 9, 2004) to Qwest's Notice of Renewed Price Regulation Plan filed with the ACC July 1, 2003.

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<sup>2</sup> Decision No. 63487, page 10, lines 9 and 10.

<sup>3</sup> Settlement Agreement, pages 5 and 6.

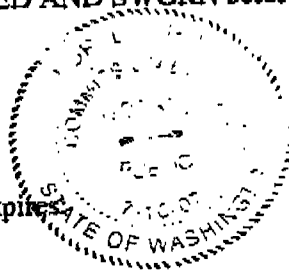



Affiant has read the foregoing Affidavit, knows the contents thereof, and states that the foregoing is true according to his best knowledge, information and belief.

DATED this 4th day of March, 2004

  
Philip E. Grate

SUBSCRIBED AND SWORN before me this 4th day of March, 2004



  
Notary Public

My Commission Expires

7/10/07

# EXHIBIT

# A

Arizona Productivity Analysis - 1995 to 1998  
MR Intrastate  
(\$000's)

Affidavit of Philip E. Grate.xls  
Attachment A

Line No.	Item	Source	1994	1995	1996	1997	1998*
<b>INPUTS</b>							
1	Intrastate Expenses	1990's Report	179,310	187,774	205,041	200,848	206,061
2	Maintenance	1990's Report	68,910	71,773	65,179	48,964	52,927
3	Engineering/Network/Access/Other	1990's Report	140,269	153,528	161,304	172,445	164,816
4	Customer Operations	1990's Report	120,992	116,446	127,985	143,530	155,888
5	Corporate Operations	1990's Report	509,481	529,521	559,509	565,787	579,692
6	TOTAL EXPENSE		418,431	423,614	438,271	433,366	439,729
7	DEFLATED EXPENSE (1988 \$)	L6/L28*100		1.2%	3.5%	-1.1%	1.5%
8	YEAR OVER YEAR GROWTH	(L7 Curr. Yr./Prev. Yr.)-1					
9	CAPITAL - Intrastate Investment	1990's Report	2,748,270	2,896,085	3,075,298	3,249,626	3,351,980
10	Average Gross Plant in Service	L9 Curr. Yr. - Prev. Yr.		147,815	179,213	174,328	102,354
11	Year over Year Additions	L10/L28*100		118,251	140,380	133,527	77,641
12	Deflated Additions (1988 \$)	L11+Prev. Yr. L12	2,639,976	2,758,228	2,898,609	3,032,137	3,109,778
13	Plant in Service Without Inflation	Input	9,75%	9,75%	9,75%	9,75%	9,75%
14	Auth Rate of Return	L12*13	257,398	268,927	282,614	295,633	303,203
15	TOTAL CAPITAL EXPENSE	(L14 Curr. Yr./Prev. Yr.)-1		4.5%	5.1%	4.6%	2.6%
16	YEAR OVER YEAR GROWTH						
17	TOTAL EXPENSE	L7+L14	675,828	692,541	720,885	728,999	742,932
18	REVENUES						
19	Operating Revenues	1990's Report	813,423	884,920	961,388	1,017,826	1,072,695
20A	Rate Adjustments	Notes	-15,153	-31,579	-34,308	-40,795	-61,575
20B	Intentionally Blank						
20C	Intentionally Blank						
21	TOTAL ADJUSTED REVENUES	L19+L20	798,270	853,341	927,080	977,031	1,011,120
22	YEAR OVER YEAR GROWTH			6.9%	8.6%	5.4%	3.5%
23	Growth in Outputs (Revenues)	L22		6.9%	8.6%	5.4%	3.5%
24	Growth in Inputs (Expenses)	L17		2.5%	4.1%	1.1%	1.9%
25	Productivity	L23-L24		4.4%	4.5%	4.3%	1.6%
<b>OUTPUTS</b>							
26	Inflation Data (GDPPi)	Bureau of Economic Analysis	105.2	108	110.3	112.8	113.9
27	Growth	(L26 Curr. Yr./Prev. Yr.)-1		2.66%	2.13%	2.27%	0.98%
28	Indexed (1988=100)	L28 Prev. Yr.*(1+L27)	121.76	125.00	127.66	130.56	131.83
<b>AVERAGE PRODUCTIVITY 1995-1998</b>							3.7%
<b>CONSUMER DIVIDEND</b>							0.5%
<b>TOTAL PRODUCTIVITY FACTOR</b>							4.2%

Notes: 1998 based on September 1998 YTD results annualized.  
Rate Adjustments as provided in response to data request SPI 3-001 in Docket No. T-01051B-99-0105.

**EXHIBIT**

**B**

Arizona Productivity Analysis 1999 to 2002  
MR Intrastate  
(\$000's)

Line No.	Item	Source	1998	1999	2000	2001	2002
<b>INPUTS</b>							
1	Intrastate Expenses	1990's Report	215,125	228,263	280,085	260,126	213,146
2	Maintenance	1990's Report	51,807	68,020	82,190	70,715	72,580
3	Engineering/Network/Access/Other	1990's Report	167,342	175,807	171,174	169,831	180,074
4	Customer Operations	1990's Report	158,192	134,887	173,799	147,192	127,136
5	Corporate Operations	1990's Report	592,466	606,977	707,248	647,864	592,936
6	TOTAL EXPENSE	L6/L28*100	592,466	598,338	682,833	611,036	552,964
7	DEFLATED EXPENSE (1998 \$)	(L7 Curr. Yr./Prev. Yr.)-1	1.0%	1.0%	14.1%	-10.5%	-9.5%
8	YEAR OVER YEAR GROWTH						
9	CAPITAL - Intrastate Investment	1990's Report	3,360,035	3,520,055	3,876,721	4,305,946	4,656,015
10	Average Gross Plant in Service	L9 Curr. Yr. - Prev. Yr.	160,020	157,743	356,666	429,225	350,069
11	Year over Year Additions	L10/L28*100	3,360,035	3,517,778	344,353	404,826	326,470
12	Deflated Additions (1998 \$)	L11+Prev. Yr. L12	9.75%	9.75%	9.75%	9.61%	9.61%
13	Plant in Service Without Inflation	Input	327,603	342,983	376,558	410,055	441,428
14	Auth Rate of Return	L12*L13	4.7%	4.7%	9.8%	8.9%	7.7%
15	TOTAL CAPITAL EXPENSE	(L14 Curr. Yr./Prev. Yr.)-1	920,069	941,322	1,059,391	1,021,091	994,392
16	YEAR OVER YEAR GROWTH	(L16 Curr. Yr./Prev. Yr.)-1	2.3%	2.3%	12.5%	-3.6%	-2.6%
17	TOTAL EXPENSE						
<b>OUTPUTS</b>							
18	REVENUES	1990's Report	1,088,033	1,163,288	1,210,058	1,223,921	1,115,427
19	Operating Revenues	Notes	-18,402	-14,255		-17,475	-21,329
20A	Surcharge	Notes					10,800
20B	2001 Rate Increase	Notes					1,104,898
20C	2002 Rate Decrease	L19+L20	1,069,631	1,149,033	1,210,058	1,206,446	1,104,898
21	TOTAL ADJUSTED REVENUES						
22	YEAR OVER YEAR GROWTH						
23	Growth in Outputs (Revenues)	L22	7.4%	7.4%	5.3%	-0.3%	-8.4%
24	Growth in Inputs (Expenses)	L17	2.3%	2.3%	12.5%	-3.6%	-2.6%
25	Productivity	L23-L24	5.1%	5.1%	-7.2%	3.3%	-5.8%
<b>AVERAGE PRODUCTIVITY 1999-2002</b>							
<b>CONSUMER DIVIDEND</b>							
<b>TOTAL PRODUCTIVITY FACTOR</b>							
26	Inflation Data (Chain Weighted GDPPI)	Bureau of Economic Analysis	103.2	104.69	106.89	109.42	110.66
27	Growth	(L26 Curr. Yr./Prev. Yr.)-1	1.44%	1.44%	2.10%	2.37%	1.13%
28	Indexed (1998=100)	L28 Prev. Yr.*(1+L27)	100.00	101.44	103.58	106.03	107.23

Notes: Surcharge per Docket E-1051-93-183 Decision No. 60381  
2001 removes 9 months of the \$23.3M Rate Increase from Decision No. 63487 Docket No. T-01051B-00-0369  
2002 removes 12 months of \$23.3M Rate Increase adjusted for negative growth plus 9 months of \$14.6M Decrease from 2002 Price Cap Rate Filing.

**EXHIBIT**

**C**

Arizona Productivity Analysis 1989 to 1998  
(\$000's)  
MR Intrastate

Affidavit of Philip E. Grate.xls  
Attachment C  
Page 1 of 2

Line No.	Item	Source	1988	1989	1990	1991	1992	1993
INPUTS								
1	Intrastate Expenses	1990's Report	138,385	140,901	143,255	141,875	156,370	165,577
2	Maintenance	1990's Report	39,510	53,348	57,164	56,224	60,702	64,212
3	Engineering/Network/Access/Other	1990's Report	93,974	103,582	98,790	97,066	120,156	128,013
4	Customer Operations	1990's Report	85,645	97,555	91,983	126,804	113,849	117,402
5	Corporate Operations	1990's Report	357,514	395,386	391,192	421,969	451,077	475,204
6	TOTAL EXPENSE	L6/L28*100	357,514	379,571	360,330	374,313	389,731	399,782
7	DEFLATED EXPENSE (1988 \$)	(L7 Curr. Yr./Prev. Yr.)-1		6.2%	-5.1%	3.9%	4.1%	2.6%
8	YEAR OVER YEAR GROWTH							
9	CAPITAL - Intrastate Investment	1990's Report	1,842,444	1,941,350	2,104,562	2,326,946	2,472,103	2,609,547
10	Average Gross Plant in Service	L9 Curr. Yr. - Prev. Yr.		98,906	163,212	222,384	145,157	137,444
11	Year over Year Additions	L10/L28*100		94,950	150,336	197,269	125,416	115,630
12	Deflated Additions (1988 \$)	L11+Prev. Yr. L12	1,842,444	1,937,394	2,087,730	2,284,989	2,410,414	2,526,044
13	Plant in Service Without Inflation	Input	9.75%	9.75%	9.75%	9.75%	9.75%	9.75%
14	Auth Rate of Return	L12*1.13	179,638	188,896	203,554	222,787	235,015	246,289
15	TOTAL CAPITAL EXPENSE	(L14 Curr. Yr./Prev. Yr.)-1		5.2%	7.8%	9.4%	5.5%	4.8%
16	YEAR OVER YEAR GROWTH							
17	TOTAL EXPENSE	L7+L14	537,152	568,466	563,884	597,101	624,746	646,071
18	REVENUES	1990's Report	673,757	670,789	669,591	698,835	742,749	758,234
19	Operating Revenues	Input	4,260	30,108	37,300	4,666	-26,500	-14,125
20	Rate Adjustments	L19+L20	678,017	700,897	706,891	703,501	716,249	744,109
21	TOTAL ADJUSTED REVENUES			3.4%	0.9%	-0.5%	1.8%	3.9%
22	YEAR OVER YEAR GROWTH							
23	Growth in Outputs (Revenues)	L22		3.4%	0.9%	-0.5%	1.8%	3.9%
24	Growth in Inputs (Expenses)	L17		5.8%	-0.8%	5.9%	4.6%	3.4%
25	Productivity	L23-L24		-2.5%	1.7%	-6.4%	-2.8%	0.5%
**1998 based on September 1998 YTD results annualized								
Inflation Data (GDPPI)								
Growth								
Indexed (1988=100)								
	Bureau of Economic Analysis	86.4	90	93.8	97.4	100	102.7	
	(L26 Curr. Yr./Prev. Yr.)-1		4.17%	4.22%	3.84%	2.67%	2.70%	
	L28 Prev. Yr. Yr.+(L27)	100	104.17	108.56	112.73	115.74	118.87	

Arizona Productivity Analysis 1989 to 1998  
(\$000's)  
MR Intrastate

Affidavit of Philip E. Grate.xls  
Attachment C  
Page 2 of 2

Line No.	Item	Source	1994	1995	1996	1997	1998*
<b>INPUTS</b>							
1	Intrastate Expenses						
2	Maintenance	1990's Report	179,310	187,774	205,041	200,848	206,061
3	Engineering/Network/Access/Other	1990's Report	68,910	71,773	65,179	48,964	52,927
4	Customer Operations	1990's Report	140,269	153,528	161,304	172,445	164,816
5	Corporate Operations	1990's Report	120,992	116,446	127,985	143,530	155,888
6	TOTAL EXPENSE		509,481	529,521	559,509	565,787	579,692
7	DEFLATED EXPENSE (1988 \$)	L6/L28*100	418,433	423,617	438,274	433,369	439,731
8	YEAR OVER YEAR GROWTH	(L7 Curr. Yr./Prev. Yr.)-1	4.7%	1.2%	3.5%	-1.1%	1.5%
9	CAPITAL - Intrastate Investment						
10	Average Gross Plant in Service	1990's Report	2,748,270	2,896,085	3,075,298	3,249,626	3,351,980
11	Year over Year Additions	L9 Curr. Yr. - Prev. Yr.	138,723	147,815	179,213	174,328	102,354
12	Deflated Additions (1988 \$)	L10/L28*100	113,932	118,252	140,381	133,528	77,642
13	Plant in Service Without Inflation	L11+Prev. Yr. L12	2,639,976	2,758,228	2,896,609	3,032,137	3,109,778
14	Auth Rate of Return	Input	9.75%	9.75%	9.75%	9.75%	9.75%
15	TOTAL CAPITAL EXPENSE	L12/L13	257,398	268,927	282,614	295,633	303,203
16	YEAR OVER YEAR GROWTH	(L14 Curr. Yr./Prev. Yr.)-1	4.5%	4.5%	5.1%	4.6%	2.6%
17	TOTAL EXPENSE	L7+L14	675,831	692,544	720,888	729,002	742,935
18	REVENUES						
19	Operating Revenues	1990's Report	813,423	884,920	961,388	1,017,826	1,072,695
20	Rate Adjustments	Input	-15,153	-31,579	-34,308	-40,795	-61,575
21	TOTAL ADJUSTED REVENUES	L19+L20	798,270	853,341	927,080	977,031	1,011,120
22	YEAR OVER YEAR GROWTH		7.3%	6.9%	8.6%	5.4%	3.5%
23	Growth in Outputs (Revenues)	L22	7.3%	6.9%	8.6%	5.4%	3.5%
24	Growth in Inputs (Expenses)	L17	4.6%	2.5%	4.1%	1.1%	1.9%
25	Productivity	L23-L24	2.7%	4.4%	4.5%	4.3%	1.6%
<b>OUTPUTS</b>							
<b>AVERAGE PRODUCTIVITY 1989-1998 0.8%</b>							

\*1998 based on September 1998 YTD results annualized

Inflation Data (GDPPI)  
Growth  
Indexed (1988=100)

Bureau of Economic Analysis  
(L26 Curr. Yr./Prev. Yr.)-1  
L28 Prev. Yr.\*(1+L27)

105.2  
2.43%  
121.76

108  
2.66%  
125.00

110.3  
2.13%  
127.66

112.8  
2.27%  
130.56

113.9  
0.98%  
131.83